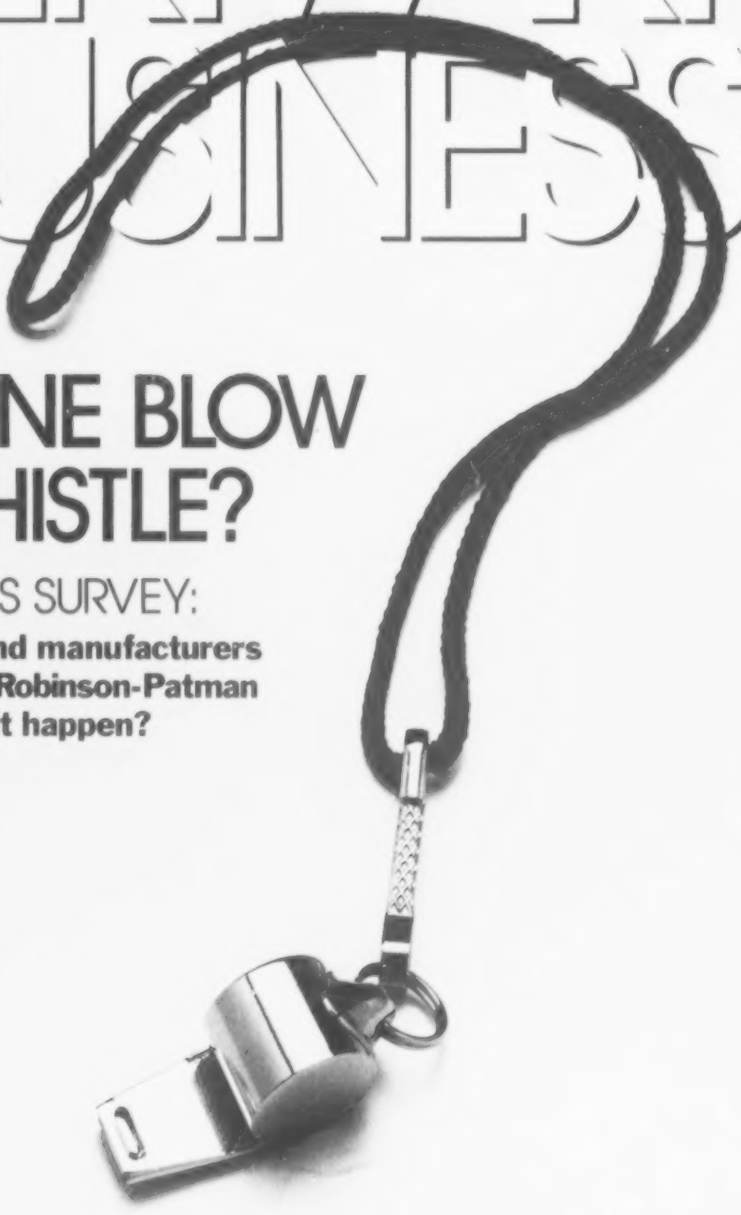
SUPERMARKET BUSINESS

$7.00
PER COPY

VOLUME 47/NUMBER 4
APRIL 1992



WILL ANYONE BLOW THE FTC WHISTLE?

1992 TRADE PRACTICES SURVEY:

Most retailers, wholesalers and manufacturers say stronger enforcement of Robinson-Patman would be beneficial. But will it happen?

3-DIGIT 208
****
35 SBSC45809I6
CONGRESSIONAL INFO SERVICE
04
CONGRESSIONAL INFO SKY IN
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

SUPERMARKET BUSINESS

APRIL 1992

VOLUME 47
NUMBER 4

FEATURES

TRADE PRACTICES: WHO WILL BLOW THE WHISTLE? KEN PARTCH **29**

Most people at every level of the supermarket industry, on both the retailer and supplier side, favor tougher enforcement of anti-trust laws such as the Robinson-Patman Act, according to our new trade practices survey. So why isn't the Federal Trade Commission, the agency charged with doing just that, getting the message?

page 39

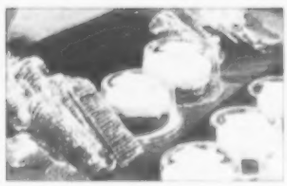
TAKING QUALITY ON THE ROAD MIKE DUFF **39**

The potential for foodservice safety slip-ups can cause any supermarket operator sleepless nights. But rather than spending time tossing and turning, the Wakefern co-op is taking preventive action, with quality control vans that conduct safety inspections as an on-site service to its members' stores.

WHO'S SORRY NOW? AN OBJECT LESSON FRANK HAMMEL **41**

If a harsh new local plastics ban is enforced, St. Paul, Minnesota retailers won't be able to sell and consumers won't be able to buy a host of their favorite grocery products. How did it happen? If a similar initiative should pop up in your neighborhood, what should you do to nip the nonsense in the bud?

INSTORE BUSINESS



page 45

THE 10th ANNUAL BAKERY OPERATIONS REVIEW **45**
DAVID LITWAK AND NANCY MALINE

Bread is basic. And with its high margins, there's plenty of dough in it...especially, it seems, in time of recession: Collectively, service bakery products posted sharp sales increases in 1991. See inside for more details on these and other key 1991 bakery benchmarks.

NONFOODS BUSINESS

KEEPING THE MOOLA IN ROUGE FRANK HAMMEL **69**

Competitively, sometimes the worst thing to do is to try to play your opponents' game. So, under pressure from discounters, traditionally price-oriented supermarket operators like King Soopers and Cub have switched to counter service in cosmetics. What are their odds of keeping sales and maximizing margins?

COLUMNS & DEPARTMENTS

EDITOR'S VIEW..... **9**
WASHINGTON BRIEFS.... **11**
TRADESCAN..... **13**
SUPPLIER SIDE..... **21**
TECHNOLOGY..... **23**
PRODUCE..... **27**
PREPARING FOOD..... **63**
READER CONTEST..... **74**
ADVERTISERS' INDEX..... **76**
CHECKOUT..... **78**

Cover Photograph:
David DiMicco/E-Ticket Productions

CAN WE GET OFF DREAM STREET?

By Ken Partch, Editor-In-Chief

Two years ago, SUPERMARKET BUSINESS conducted the industry's first survey on slotting allowances and related industry practices. We learned that this was not only a hot issue, but one that industry people *did* want to talk about. This year, we asked pretty much the same questions again, and got pretty much the same responses, even though a lot has changed.

The great majority still feels that Robinson-Patman should be enforced. The great majority also feels that the manufacturers are the only ones who can stop diverting—assuming anybody wants it stopped.

Why, then, have reactions in the trade to the Procter & Gamble move toward everyday low prices been so volatile, and so different? They have ranged from "Let's see if they can pull it off," said in a tone of disbelief that they can, to "Great. I like it."

I admit that most of the people who have said they liked the P&G move are smaller operators. When you think about it, it is easy to see why. One of the people who likes it is Jules Rose, chairman of Sloan's in New York. Julie points out that EDLP is good for smaller operators, as well as smaller manufacturers, who haven't been able to play in the heavy money games of the '80s.

Julie says: "It's good because it will force us to get back to being marketers and merchants. Throwing a lot of money around is a lot easier than being a creative marketer. It means we have to start making money on selling rather than buying."

Another retailer who says he likes it is Rick Geeslin. Rick is general manager of an 11-store chain in Azie, Texas, called Diamond Food Markets, Inc. Rick tells it straight from the shoulder, just the way a Texan should: "What Procter is doing," says Rick, "is putting the product out there and saying this is the price; take it or leave it.

As strange as it may seem, many in the industry still don't comprehend that all the money in the system comes from the consumer.

Those who don't like it are those who feel they have an advantage the way things are. They don't want to lose that advantage. If I had it, I'd feel the same way, but I don't have it. So I like what Procter is doing."

We asked Julie for a translation of what people mean when they say: "Procter is trying to tell me how to run my business."

"What they mean," says Julie, "is that Procter is trying to regain control of its own business. It had lost control, the same as all the other big manufacturers. The manufacturers have all this money going out up front. Up to now, they've been able to raise prices to cover anything they wanted to do. Now they can't. This recession is lasting longer than anybody thought it would. Private label is growing. Total sales are off. Inflation is off. They have to pull back. It's the same with Kraft. And don't think they're not into EDLP. The clubs allow them to pull back on some of this money, because they are an alternative outlet."

I talked to a midwestern wholesaler at the NAWGA meeting last month who also thought Procter was on the right track. He didn't want to be quoted, but he did have this to say about diverting:

"We bought a load of coffee one time, and then diverted it," he said. "We made money on it. Then, about six months later, we bought another load of coffee from somebody else. We discovered that we had bought the same load of coffee again. We could tell from the case labels. We had bought our own coffee back. The really funny part is that we made money both times."

I can't help wondering where this coffee actually originated, and if anybody ever actually used it. No wonder some manufacturers are beginning to complain about the age of the product now in the system.

One of the statements we made two years ago in our survey, and again this year, was: "Consumers ultimately pay for slotting allowances and other distributor fees." We originally thought this was an obvious conclusion, or a "throwaway," as it's called in the survey business.

We were wrong. There is actually a difference of opinion on this. Sixteen percent of the retailers responding thought the statement was "not true." Eleven percent of the wholesalers felt the same way—down from 29 percent in 1990. Curiously, no manufacturers in this year's survey branded the statement untrue, although they, too, were divided as to just how true it is.

If there is a difference of opinion as to where the money that finances the entire system comes from, then it should be no surprise that a majority of replies to the question of what constitutes a fair slotting allowance was: "Anything the traffic will bear."

SUPERMARKET BUSINESS

EDITOR-IN-CHIEF
Kenneth P. Partch

MANAGING EDITOR
Richard DeSanto

SENIOR EDITOR/RESEARCH
David Litvak

SENIOR EDITOR
Mike Duff

EDITORIAL ASSISTANT
Arlette White

ART DIRECTOR
Jerry Tortorello

RESEARCH EDITOR
Nancy Maline

CONTRIBUTING EDITORS
Frank Hammel
Produce: Barney H. McClure
Food Prep: Elaine Reader
Technology: Richard Shulman
Washington: Ken Rankin
Store Planning: David Rogers
Management: Jack Cohen

PUBLISHER
Jeffrey A. Schaeffer

ASSOCIATE PUBLISHER
Carol Fenshalt

VICE PRESIDENT/CIRCULATION DIRECTOR
Frank Marino

PRODUCTION DIRECTOR
Gregg Weatherby

MANAGER/SUPPORT SYSTEMS
Rachel Crouchelli

ADVERTISING SALES

EAST COAST

REGIONAL SALES MANAGER
Don Rocco

SALES DEVELOPMENT DIRECTOR
Janet Isenberg

MIDWEST

VICE-PRESIDENT/NATIONAL ACCOUNTS
Dave Wishard

REGIONAL SALES MANAGER
John Sonderegger
1821 Walden Office Sq.
Suite 333
Schaumburg, Il 60173
(708) 397-6700

WEST COAST

Sue Marriff
20700 Ventura Blvd.
Suite 310
Woodland Hills Calif. 91364
Phone: (818) 340-4666
Fax: (818) 346-9700

VICE PRESIDENTS
Carol Fenshalt
Kenneth P. Partch

VICE PRESIDENT/ADMINISTRATION
Catherine Cahill

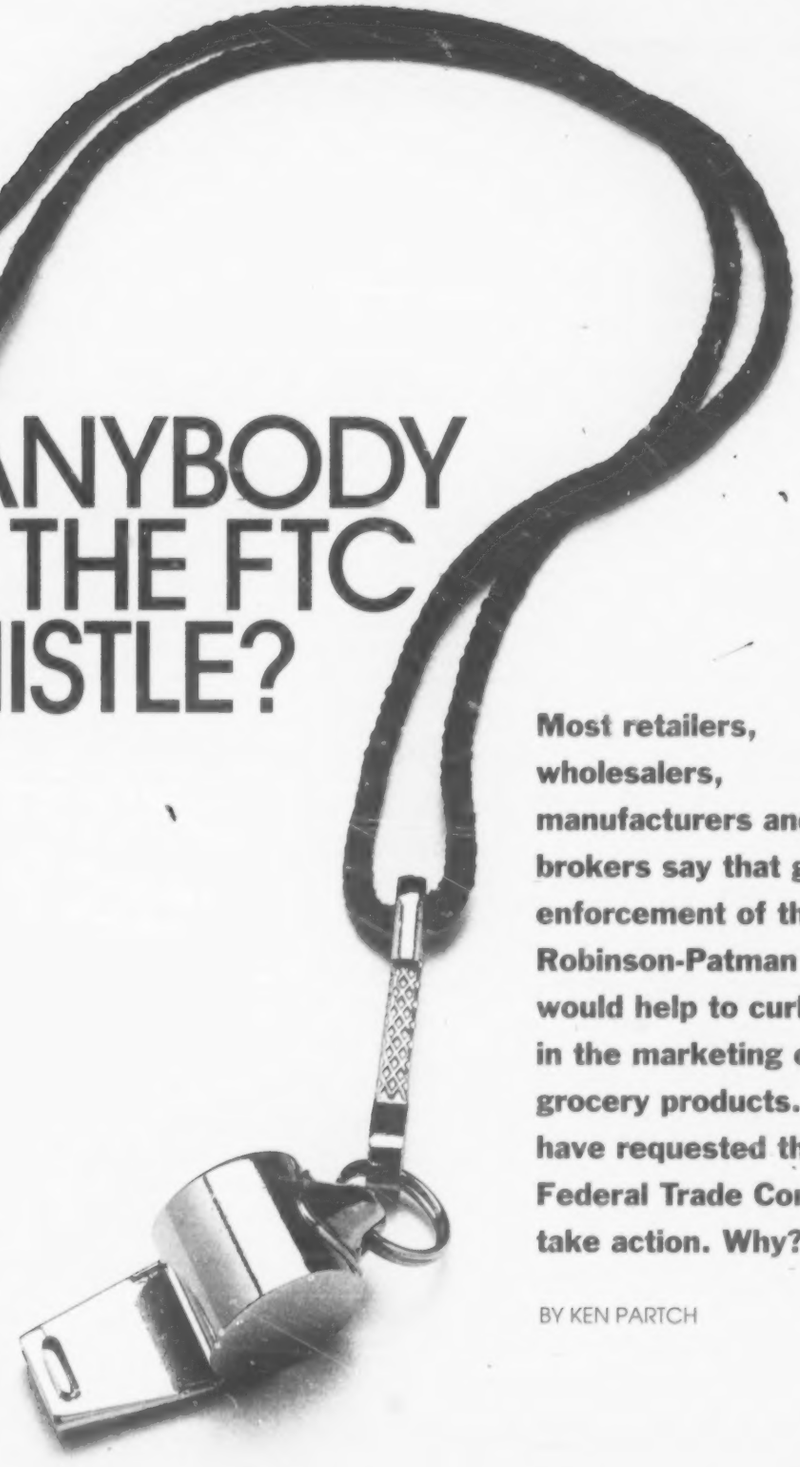
CORPORATE OFFICERS/FM BUSINESS PUBLICATIONS, INC.

CHAIRMAN: Robert Riordan
PRESIDENT & CEO: Paul McPherson
PRESIDENT/MARKETING/SERVICE PUBLICATIONS DIV.: Jeffrey A. Schaeffer

SUPERMARKET BUSINESS Magazine (ISSN 0196-5700) is published monthly by FM Business Publications, Inc., 342 Madison Ave., New York, NY 10173. Telephone: 212-867-2350. Circulated free of charge to grocery retailers and wholesalers. U.S. subscriptions $53 per year; Canada, $62 per year. Foreign subscriptions $73 (seamail), $233 (airmail), per year. Single copies $7, except Consumer Expenditures Study (September issue) $32 per copy. (Discount prices available on multiple purchases.)

Copyright © 1992 FM Business Publications, Inc. All rights reserved. SUPERMARKET BUSINESS is a registered trademark of Supermarket Business Inc. Second class postage paid at New York, N.Y., and additional mailing offices.

All circulation inquiries to: SUPERMARKET BUSINESS, P.O. Box 175, Winchester, MA 01890.



WILL ANYBODY BLOW THE FTC WHISTLE?

Most retailers, wholesalers, manufacturers and food brokers say that greater enforcement of the Robinson-Patman Act would help to curb abuses in the marketing of grocery products. Yet few have requested that the Federal Trade Commission take action. Why?

BY KEN PARTCH

1992 TRADE PRACTICES SURVEY

TOP MANAGEMENT SURVEY

Grocery manufacturers are making very high profits these days.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Strongly Agree	33%	26%	29%	54%	14%	4%
Somewhat Agree	48	62	59	23	32	17
Somewhat Disagree	18	9	12	23	36	44
Strongly Disagree	0	3	0	0	18	35

Comments: Some are; some aren't (w).

Retailers are not sharing in high profits to the same degree.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Strongly Agree	45%	56%	44%	50%	23%	0%
Somewhat Agree	39	33	56	22	28	39
Somewhat Disagree	15	10	0	18	14	48
Strongly Disagree	0	1	0	0	36	13

Comments: No one is getting rich in this environment (m).

Wholesalers are not sharing in high profits to the same degree.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Strongly Agree	18%	21%	56%	46%	14%	13%
Somewhat Agree	55	50	44	39	38	52
Somewhat Disagree	21	22	0	15	29	22
Strongly Disagree	6	7	0	0	19	13

Manufacturers are flooding the market with too many new products that are not really new or have not been properly test marketed.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Strongly Agree	55%	65%	67%	72%	32%	12%
Somewhat Agree	42	31	28	28	32	76
Somewhat Disagree	3	2	5	0	27	12
Strongly Disagree	0	2	0	0	9	0

Diverting can be stopped only by manufacturers.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Agree	76%	58%	72%	72%	36%	12%
Somewhat Agree	6	29	22	14	14	35
Somewhat Disagree	15	11	4	14	32	22
Strongly Disagree	3	2	0	0	18	31

Comments: Wholesalers are under no obligation to participate (w).

In every survey conducted by this magazine since 1986, the great majority of respondents at every level of the industry favor greater enforcement of antitrust laws, and especially the Robinson-Patman Act.

This law was written to address abuses of promotional allowances and other actions that favor one segment of the industry over another, or large customers over small. Robinson-Patman requires "proportionately equal" treatment of all retailers by manufacturers. But to date, the only complaints filed with the FTC that we know of are those dealing with the issues concerning food brokers.

If indeed most segments of the industry feel that the playing field is no longer level—and that trade practices such as forward buying, diverting, slotting allowances and all manner of deals and terms of sale have gotten so far out of hand that only an outside "policeman" can deal with them—then why haven't the distributor and manufacturer trade associations or their members filed formal complaints with the FTC, the agency that is charged with enforcing the law?

More now agree

In reply to SUPERMARKET BUSINESS's current survey, 76 percent of responding manufacturers thought that stronger enforcement of Robinson-Patman would be beneficial to the industry. In a similar survey conducted two years ago and published in our May, 1990 issue, only 57 percent expressed that opinion. Similarly, responding wholesalers showed an increase from 66 percent to 78 percent in agreement with stronger enforcement. Retailers responding in favor of greater enforcement went down slightly from 71 percent to 68 percent—still a large majority.

Two years ago, the overwhelming percentage of respondents in the retailer segment were in the "smaller chains" categories—those operating 50 or fewer stores. In 1992, respondents were much more evenly distributed among small to large and even giant companies. Yet, the great majority still opted for greater enforcement. In every segment of the industry, those who "strongly agree" with stronger enforcement increased in number.

Looking at responses to questions on diverting and forward buying provides quick insight into the often widely divergent views on every-day-low-pricing policies. The overwhelming majority of retailers and wholesalers (67 percent of each) strongly agree that forward buying is a necessary practice in order to stay profitable. Most would agree that diverting is good business for wholesalers and retailers, although there were far fewer in the "strongly agree" category.

But the real ambivalence over the connections between these practices shows up in replies to the statement: "Diverting can be stopped only by manufacturers."

Seventy-six percent of the responding retailers strongly agreed, as did 72 percent of the wholesalers. Among manufacturers, however, exactly half (50%) disagree to some extent, while 18 percent disagree strongly. Further, when responding to the statement, "Buying from diverters is good wholesale and retail business," exactly two-thirds of both the retailers and wholesalers agreed to a greater or lesser extent.

As one retail executive once said to SUPERMARKET BUSINESS, "If it's out there, I owe it to my customers and my company to buy it." But in this latest survey, one wholesaler said, "It harms local sales or brokerage personnel." Another flatly stated, "Wholesalers are under no obligation to participate." A manufacturer exclaimed, "It's unethical!"

And there is the crux of the problem: "I would be a fool not to take advantage of a situation that exists," one respondent wrote. But others wrote: "It hurts others," and "It's unethical."

The slotting allowances issue is the area of biggest disagreement between manufacturers and distributors, as would be expected. Although they are mostly in agreement that too many untested or not-really-new products are flooding the market, most manufacturers still feel that slotting allowances are not justified where positive market acceptance can be proved.

Finally, there is still confusion over who ultimately pays for all costs within the distribution system. Surprisingly, fewer retailers than suppliers seemed to grasp the idea that all costs are eventually passed on to the consumer.

TOP MANAGEMENT SURVEY

Buying from diverters is good wholesale and retail business.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Strongly Agree	38%	17%	39%	44%	10%	12%
Somewhat Agree	28	37	27	28	38	21
Somewhat Disagree	28	27	17	28	19	21
Strongly Disagree	6	19	17	0	33	46

Comments: ■ It harms local sales or brokerage personnel, with extra middlemen sapping profits (w) ■ It's unethical! (m).

Forward buying is a necessary practice in order to stay profitable.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Strongly Agree	67%	50%	67%	69%	27%	3%
Somewhat Agree	27	43	17	23	50	44
Somewhat Disagree	6	5	11	8	14	31
Strongly Disagree	0	2	5	0	9	22

Comments: ■ Under present rules, yes; if rules are changed, the profit will be from other areas (w) ■ Can't strongly agree because am not sure how much cost is added to the system through inefficiencies (m) ■ But penalized by Club store, separate class of trade (r) ■ It is necessary to stay competitive (w).

Manufacturers offer too many deals and too often do not restrict deal quantity.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Strongly Agree	19%	14%	29%	7%	14%	22%
Somewhat Agree	42	28	12	31	57	57
Somewhat Disagree	19	33	53	23	14	17
Strongly Disagree	19	25	6	39	14	4

Comments: They have become a crutch (w).

Because of so many untested new products, slotting allowances are justified.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Strongly Agree	67%	45%	78%	50%	14%	0%
Somewhat Agree	27	39	11	43	18	10
Somewhat Disagree	3	5	11	0	36	33
Strongly Disagree	3	11	0	7	32	57

Comments: ■ Don't stock the new products unless justified (r) ■ New items with proper marketing plans significantly differentiated from competition with a high probability of success don't require slotting allowances for us (w).

The answer to the question of why there are so few formal complaints filed with the FTC must involve fear ... fear that a meaningful FTC investigation could bring to light elements of everyday dealings that, in the end, will cause even more long-term grief. There may well be reason to believe that an active FTC might become a rampaging Nader's Raiders-type consumer champion, finding dragons to be slain in every industry corner.

Better to let sleeping dogs lie, perhaps. But as many segments of the industry are learning, self-policing doesn't always work.

Buyer/Merchandisers Say...

In the second part of the SUPERMARKET BUSINESS survey, buyers and merchandisers were asked a number of questions regarding new product introductions and support. Buyers indicated that market research support data was only "sometimes" provided, and that its availability continues to diminish.

When asked if buyers would accept a new product without supporting market research data, the great majority, 69 percent, said "Yes." Most buyers felt that new products should be accepted only on a guaranteed sale basis.

When asked about introductory allowances, most buyer/merchandisers disagreed that such payments usually were sufficient to cover costs. Forty-three percent did agree somewhat, but none strongly agreed that the allowances were adequate.

Other replies were even more revealing about industry practices. Regarding the statement that "It is the buyer's responsibility to accept or reject a new product based on its merits," only 54 percent strongly agreed. Twenty-two percent either somewhat or strongly disagreed.

When asked about behavior in the marketplace regarding the laws that regulate "fair" and "equal" treatment, buyers generally felt that manufacturers obey them, although two singled out clubs and mass merchandisers as getting unfair advantages.

When it came to assessing their competitors, 32 percent felt that their rivals did not obey the laws. When asked if their companies had policies regarding these laws, only 57 percent said, "Yes." Thirty-four percent said, flatly, "No."

TOP MANAGEMENT SURVEY

A fair charge for slotting allowances is...

	Retailer		Wholesaler	
	1992	1990	1992	1990
$2 - 3,000	25%	44%	33%	50%
$5 - 10,000	13	11	7	8
$25,000 & up	3	1	0	8
Whatever traffic will bear	45	43	33	34
No answer	13	1	28	0

Comments: ■ Should be based on amount of time product stays in warehouse (r) ■ Should be based on size of account (r) ■ None — will only drive up cost (r) ■ A wholesale slotting allowance should be in lower figures. I'm not capable of stating what retail slotting allowance should be (w) ■ There's no real "fair" value here! (w) ■ The issue is not fair (w) Reasonable reimbursement of costs (w) ■ Depends on size, kind of distribution center. Should cover cost of slotting a new item (w) ■ Will vary by competitive practices, kind of item, etc. (w).

Slotting allowances are not justified.

	Retailer		Wholesaler	
	1992	1990	1992	1990
Strongly Agree	6%	11%	0%	7%
Somewhat Agree	10	11	5	7
Somewhat Disagree	26	41	56	22
Strongly Disagree	58	37	39	64

Comments: Where would retailers and wholesalers be without new items which are, after all, developed not by either of the above, but by manufacturers (w)?

As a retailer/wholesaler, what is your usual slotting fee per SKU?

	Retailer		Wholesaler	
	1992	1990	1992	1990
Under $1,000	42%	69%	47%	34%
$1 - 2,000	21	14	20	25
$2 - 3,000	13	9	11	13
$3 - 5,000	17	2	11	25
More (specify):				
$10,000 (more)	4	4	11	13
$0	8	2	0	0

There is still confusion over who ultimately pays for all costs within the distribution system. Fewer retailers than suppliers seem to grasp the idea that all costs are eventually passed on to the consumer.

Slotting allowances are not justified where positive market acceptance can be proven.

	Manufacturer	
	1992	1990
Strongly Agree	58%	80%
Somewhat Agree	21	5
Somewhat Disagree	16	10
Strongly Disagree	5	5

Some retailers charge entrance fees to new suppliers. Would you pay such a fee?

	Manufacturer	
	1992	1990
Yes	14%	5%
No	59	95
No Answer	27	0

The answer to the question of why there are so few formal complaints filed with the FTC must involve fear ... fear that a meaningful FTC investigation could bring to light elements of everyday dealings that, in the end, will cause even more long-term grief.

Most abuses in marketing can be laid at the manufacturer's door.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Strongly Agree	31%	38%	17%	22%	14%	4%
Somewhat Agree	44	38	66	36	24	31
Somewhat Disagree	22	21	17	29	29	13
Strongly Disagree	3	3	0	13	33	26

Comments: Wholesalers and chains share in this greed (m).

Charging failure fees to remove unsuccessful products is justified.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Strongly Agree	45%	27%	33%	43%	10%	10%
Somewhat Agree	29	33	22	36	24	26
Somewhat Disagree	23	19	28	13	10	10
Strongly Disagree	3	21	17	8	57	64

Comments: ■ No one forces a purchase (r) ■ Not if slotting or up-front payment made (m).

Consumers ultimately pay for slotting allowances and other distributor fees.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Not True	16%	9%	11%	29%	0%	4%
Somewhat True	31	28	17	13	23	32
Sometimes True	22	22	28	29	38	32
Always True	31	41	44	29	38	32

Comments: ■ Our firm has taken in items without any slotting allowances (w) ■ These costs are passed down in the form of higher case prices. Consumers always foot the bill (m).

Stronger government enforcement of antitrust regulations (e.g. Robinson-Patman Act) would be beneficial to the industry.

	Retailer		Wholesaler		Manufacturer	
	1992	1990	1992	1990	1992	1990
Strongly Agree	34%	30%	28%	22%	33%	13%
Somewhat Agree	34	41	50	44	43	44
Somewhat Disagree	6	17	17	17	14	17
Strongly Disagree	25	12	5	26	10	26

BUYER/MERCHANDISER SURVEY

Most manufacturers are familiar with the laws that regulate "fair" and "equal" treatment of retailers.

	Buyer/Merchandiser
Strongly Agree	39%
Somewhat Agree	48
Somewhat Disagree	11
Strongly Disagree	2

Comments: ■ If most manufacturers are aware they do not show it in their performance ■ Knowledge, but not practice.

Do small manufacturers pay more, less or the same to get their products on the "acceptable" list?

	Buyer/Merchandiser
More	20%
Less	22
Same	58

Comments: ■ They have no recession ■ Usually doesn't matter except for some items large companies put in with no allowance.

It is the buyer's responsibility to accept or reject a new product based on its merits.

	Buyer/Merchandiser
Strongly Agree	54%
Somewhat Agree	24
Somewhat Disagree	13
Strongly Disagree	9

Comments: ■ Committee decision/ Buying group ■ We review all new items with store managers.

Most manufacturers obey these laws.

	Buyer/Merchandiser
Strongly Agree	11%
Somewhat Agree	52
Somewhat Disagree	26
Strongly Disagree	11

Comments: ■ I think manufacturers treat Clubs better re deals/terms ■ Playing field between supermarkets and mass merchandisers not level.

As far as you know, most of your competitors obey these laws.

	Buyer/Merchandiser
Strongly Agree	9%
Somewhat Agree	59
Somewhat Disagree	23
Strongly Disagree	9

Comments: ■ All retailers/wholesalers try to get the lowest cost and in this sometimes pressure causes situations that can enter a gray area for both manufacturer and retailer.

Does your company have any policy about these laws? If yes, please describe.

	Buyer/Merchandiser
Yes	57%
Follow laws	57
Robinson-Patman	21
Treat everyone fairly	13
Equal treatment based on size of our sale	4
Negotiating	4
No	34
No answer	9

The supplier should pick up all unsold new products.

	Buyer/Merchandiser
Strongly Agree	56%
Somewhat Agree	35
Somewhat Disagree	8
Strongly Disagree	0

Comments: ■ If a company does what supplier suggests and it still doesn't sell, it is supplier's responsibility ■ Warehouse quantities; allowance at store ■ These types of agreements must be negotiated in advance ■ Only if promises weren't fulfilled (i.e. cancelled ads).

After what period of time?

	Buyer/Merchandiser
6 months	35%
90 days	16
120 days	10
30 days	10
Agree upon date in advance	7
60 days	6
1 year	3
9 months	3
5 months	2
30 days after 4 mo. trial	2
After 4 mo. trial period	2
2 months after ads start	2
When outdated or spoiled	2

What is the average fee that you charge for handling new products?

Per SKU	Buyer/Merchandiser
$50 for 1st, $15 for 2nd, $5 for 3rd ...	2%
$300	7
$500	4
$500 - 4,000	2
$500 + 10-20% per deal	2
$750 - 1,000	2
$1,000	4
$1,500	9
$2,000	2
$2,500	4
$5,000	4
$5,000 - 10,000	2
$25,000	2
2 free per store	7
No charge	8
Depends on item	10
No answer	30

Per store	Buyer/Merchandiser
$34.09 -45.45	2%
$50	4
$100	4
$200	2
$1,000 - 1,500	2
No charge	10
Depends on item	10
No answer	67

The standard introductory allowance many manufacturers offer for new product introductions is usually sufficient to cover your costs.

	Buyer/Merchandiser
Strongly Agree	0%
Somewhat Agree	43
Somewhat Disagree	37
Strongly Disagree	20

Comments: ■ Some companies offer little and feel they don't have to do anything ■ Warehousing and accounting costs ■ Northeast is competitive marketplace ■ Sometimes the amount is enough but it costs us money ■ Too many of these allowances must be passed on to the retailer ■ Most manufacturers have larger than normal deals. These do not cover putting items on shelf. Need placement funds ■ Should be 15% and not $1 per case or less than 10% ■ With today's labor costs, the offers don't cover our needs ■ Allowances have changed a great deal lately ■ Use intro to give customer a lower retail, thus reducing our profit ■ Our research shows cost of markdowns to move deleted items is greater than most intros ■ Lost sales & profits from deleted items exceed most intro deals ■ Need additional listing allowance to cover cost of setting up new items ■ Time of working it on shelf, generating new tags, taking other products off the self to make room and half price these same discretional items ■ Cost of setting up & deleting new items With this bad economy the risk is too great ■ Costs include markdown of existing products to make room for new, and labor. Allowances still don't cover that now.

If a manufacturer does not have a standard fee, how is the allowance determined?

	Buyer/Merchandiser
Negotiation	35%
Slotting fee/set fee	32
Based on new item for category	11
Company requirements/ programs	8
% of Cost	5
Past history	5
It varies	3

The manufacturer submits test market data on new products.

	Buyer/Merchandiser
Always	15%
Sometimes	63
Rarely	21
Never	2

Comments: ■ Most often not relevant ■ Less & less, it seems ■ Who cares? They twist the numbers to make new items look like you can't live without them.

Would you accept a new product without such data or track record information? If yes, under what circumstances?

	Buyer/Merchandiser
Yes	69%

Comments: ■ If manufacturer promises to pick up excess product should the item fail. ■ If competition was advertising it ■ If item has merit (quality/value) and truly meets an easily understood consumer need ■ Depends on need for the item, strong advertising support, retail support or gut feel ■ You have to take chances once in awhile. Retailing is a risky business. Whoever thought a pet rock would sell? ■ Small companies that don't have funds to conduct marketing test sometimes have good items that may sell well on a local level ■ If from a dependable company ■ If product is unique ■ If it is competition for a low profit item that is currently carried ■ May be similar to existing item but under a different brand ■ If a line extension ■ If product has potential of opening up a new category in nonfoods ■ We are forced to today — we see very little data ■ Guarantees are acceptable if data not available ■ Most test info is not valid as manufacturers spend more in those test markets ■ As a buyer I have never seen a bad test market, yet so many new items still fail.

	Buyer/Merchandiser
No	31%

Comments: ■ We feel far too many vendors rush to get items in and bypass all the things that made their products successful in the past, i.e. test marketing, sampling.

The manufacturer is expected to remove a poor selling product within a category in order to make room for a new product.

	Buyer/Merchandiser
Strongly Agree	46%
Somewhat Agree	44
Somewhat Disagree	8
Strongly Disagree	2

Comments: ■ Depends if either has slotting money available ■ Offer credit so product could be reduced and when finished, discontinued ■ This rarely happens. They often offer to remove a competitor's slow item but seldom one of their own dogs ■ Good category manager should be the person to decide on what products should be removed from a category to make room for new products ■ The retailer must monitor all categories and delete products to open up space as needed, or to increase category space if needed, at the expense of another category and the items within.

New products should be accepted only on a guaranteed sale basis.

	Buyer/Merchandiser
Strongly Agree	31%
Somewhat Agree	48
Somewhat Disagree	17
Strongly Disagree	4

Comments: ■ Retailer should entitle the manufacturers to borrow or rent the shelf space needed to market his product, not take all of the liability for the product. Retail business should lease the real estate! ■ Depends on items. Marginal items should be guaranteed ■ New products must meet or exceed set criteria for sales and profit. If these goals are not met, there should be a pre-determined fee or expense charged to the manufacturers.

Advertising and promotional support are very important in getting a new product accepted.

	Buyer/Merchandiser
Strongly Agree	85%
Somewhat Agree	15
Somewhat Disagree	0
Strongly Disagree	0

SUPERMARKET BUSINESS

instore BUSINESS

TENTH ANNUAL INSTORE BAKERY REVIEW

Amid the tightest economy in a decade, bakery sales were up significantly, with no loss in profitability. Now, if we can just find a way to jack up that customer count ... by DAVID LITWAK and NANCY MALINE

■ Whether you head your chain's bakery operations at the corporate level, or manage the bakery department in a single store, odds are your 1991 results produced at least a sigh of relief, if not an even more hearty celebration.

The returns of our 10th Annual Instore Bakery Operations Review revealed that apprehensions about shopper belt-tightening, and the effects of management-mandated cost controls on the bakery's image and sales were, by and large, unfounded.

To be sure, there was efficiency in the air last year, along with those heavenly, fresh-baked aromas. Staffing was not increased, self-service fixtures and tables gained emphasis, department square footage held steady, and preparation techniques were mixed and matched for better productivity.

Assumedly, such measures played a key role in protecting departmental bottom-line contributions from a battering in last year's ultra-competitive atmosphere.

Yet it appears that the sales effort was not seriously impaired. Total instore bakery volume for the year topped $7.9 billion, an increase of more than 11% over the 1990 total of $7.1 billion. It was the largest one-year gain since 1988, the last time the department had achieved double-digit growth.

Granted, there were some blue notes amid the black ink. Despite the overall sales increase, the department's share of total supermarket sales was off slightly. And once again, those aromas failed to entice more store patrons to sample the sections' wares ... disappointing perhaps, but hardly disastrous.

Let's take a closer look at all the numerical aspects of instore bakery performance for 1991.

Last year's sales results show that, like its instore partner, the deli, the service bakery has become an accepted—and in many cases, expected—feature in today's supermarket.

That 11% volume gain represents a measure of bona fide tonnage growth, a reflection of both greater movement per bakery section, and the addition of departments in greater numbers of stores.

On a store-by-store basis, 1991 bakery department sales averaged $7,117 per week, up 7.5% from the previous year's average of $6,617. The vast majority of respondents (88%) reported higher weekly bakery sales.

Only 6% of the operators said that their departments posted volume losses in 1991, with the remaining 6% reporting a flat sales year. The average weekly sales increase among the 88% who reported gains in 1991 was 9%.

The second factor boosting total bakery sales last year was the increased number of departments in operation. The penetration level of departments in supermarkets rose to 69.5% in 1991 from 67.3% the previous year. That means that of the nation's approximately 30,800 supermarkets, 21,400 included instore bakeries.

CENSUS 46

SALES, MARGINS & PRODUCT MIX 48

LABOR & SERVICE 52

PRODUCTION & SUPPLY 57

MERCHANDISING & CUSTOMERS 57

SPACE, LOCATION & EQUIPMENT 60

INSTORE BAKERY

CENSUS

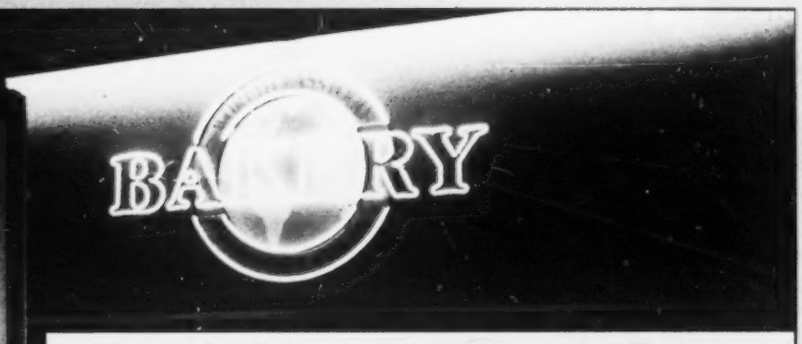
Instore bakery sales grew at a better-than-expected pace in 1991. The department's overall 11.2% sales increase, to a record $7.92 billion last year, marked its best volume gain since 1988.

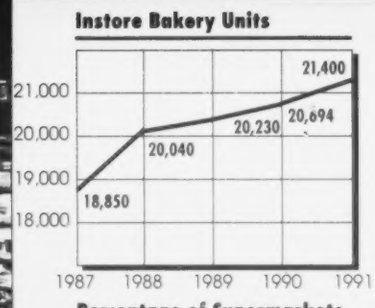
The number of bakeries in operation also increased. By the end of 1991, there were 21,400 instore bakery units, operating in 69.5% of the nation's supermarkets. The addition of 709 new bakery departments during the year also marked the biggest increase on that score since 1988.

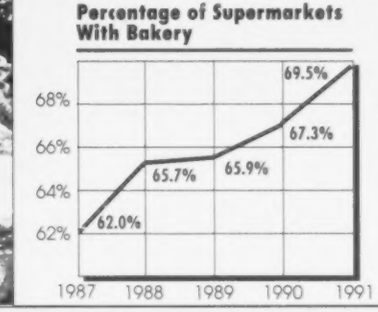
The strong sales growth, resulting from the combination of increased unit volume, higher retails and more sections in operation, breaks down to a weekly sales increase of 7.2% per department, with the average section doing $7,117 per week in 1991, compared to $6,617 the year before.

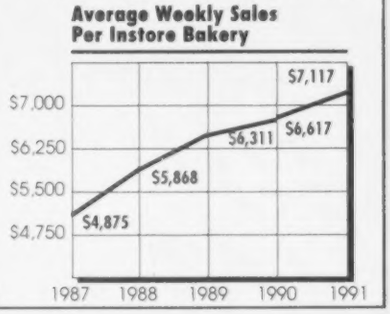
Is Portion of Store Overhead Allocated to Instore Bakeries?

Yes	**43%**
No	**57**
Total	**100%**









The highest rate of growth since 1988 was posted last year by two key measures: total sales and number of instore bakery units.

The addition of more than 700 units in 1991 was the largest increase since 1988. Small wonder that the corresponding volume increase was also the best in three years.

Despite the overall advance, bakeries' share of their stores' total sales were off slightly last year, sliding to 2.3% from 2.8% in 1990. The juxtaposition of those two measurements points to both strong sales increases in other store departments, and a general increase in SKUs throughout the store.

As mentioned, the bakery maintained the level of its contribution to the bottom line from 1990 through 1991, despite the slight drop in its distribution rate. Last year, the departments accounted for an average of 6.6% of their stores' profits, up an eyelash from the previous 6.5%.

This indicates high marks for both the profitability of bakery sales and the growing efficiency of the department's operation. Consider the average reported gross margin of 56.7%—up half a percent in 1991 and by far the highest departmental gross in the supermarket.

Supermarkets still bake bread to make bread, although that particular dough is no longer rising. White and variety breads and rolls accounted for nearly 29% of total bakery sales in 1991, still a healthy portion but down slightly from 30.4%.

With no bakery category making any dramatic distribution inroads, cookies gained the biggest chunk, moving up from 6.2% to 7.5% of the section's sales. Modest share pickups were posted by sweet goods, yeast doughnuts, custom decorated cakes, layer cakes, and danish and other pastries.

No single category other than bread/rolls accounts for as much as 10 percent of the total sales. The closest are the yeast-raised doughnuts at 9.8% percent, and decorated cakes at 9.5%.

Departmental shares of a few of the non-bread categories dipped slightly. Affected were cake doughnuts, pre-decorated cakes, bagels, croissants, muffins and pies. The biggest drop was in the cake doughnut category, which fell to 4.3% of sales in 1991 from 5.1% the year before.

In weighing these category shares, bear in mind that they are universal averages, and that the popularity of specific items varies by region, neighborhood, proximity to freestanding bakeries of various quality and other factors.

Generally, the categories being added or fortified by the greatest number of retailers include cookies, muffins and decorated cakes. Conversely, variety breads, doughnuts and muffins are most frequently designated for elimination, or at least reduction.

INSTORE BAKERY

SALES, MARGINS & PRODUCT MIX

The vast majority (88%) of supermarket operators with instore bakeries enjoyed strong volume gains in those departments last year, reporting increases averaging 9%. Only 6% of the retailers saw their bakery sales decrease last year, while the same percentage experienced a flat year.

One of the few negatives in last year's bakery performance profile was in the share of store sales distribution column, reflecting both rapid growth in other departments and an overall increase in merchandise levels. However, the bakeries held their ground in terms of profitability, with no decrease in their contribution to their stores' bottom lines.

Although bread and rolls lost some of their combined share of instore bakery sales in 1991, they still represent the biggest single chunk with 28.7%. The best gainer within the department was the cookie category, which brought in 7.5% of sales in 1991, up from 6.2% in 1990.

Average Weekly Sales

Mean **$7,117** Median **$6,750**

Weekly Sales By Format

	Mean
Superstore	**$10,947**
Super warehouse store	**$7,352**
Conventional	**$5,790**

Change in Dollar Sales (1991 vs 1990)

Higher	**88%**
No change	**6**
Lower	**6**
Total	**100%**
Average Reported Increase	**9%**

Share of Total Store Sales

Mean **2.3%** Median **2.4%**

Percent of Total Sales by Format

Superstore	**2.2%**
Super warehouse store	**1.8**
Conventional	**2.9**

Contribution to Store Profits

Mean **6.6%** Median **5.5%**

Percent of Store Profits

Less than 3.0%	**5%**
3.0-4.9	**9**
5.0-6.9	**61**
7.0 or more	**25**
Total	**100%**

Bakery Items/Lines Most Frequently Dropped or Decreased

— Variety Bread — Muffins
— Doughnuts

Bakery Items/Lines Most Frequently Added or Increased

— Decorated Cakes — Muffins
— Cookies

Gross Margin

Mean **56.7%** Median **51.0%**

Less than 40%	**1%**
40-49	**22**
50-59	**38**
60 or more	**39**
Total	**100%**

Analyzing the Instore Bakery Sales Dollar

While down in share of total store sales, the instore bakery maintained 1990's bottom line contribution.

Did you notice that muffins were in both of those groups? No, it wasn't an editorial error. Muffins were, in fact, the items most often added to and dropped from bakeries across the nation, illustrating the degree to which product trends are at different points of the cycle from region to region.

While instore departments in some markets are only just introducing many muffin varieties to their customers, their counterparts elsewhere have already been through the process, and have weeded out the non-sellers.

Operators will recall that croissant varieties went through this same cycling a few years ago. But muffins are particularly notable candidates for the in-and-out treatment because of the controversy over the real and perceived health benefits of oat and other bran varieties.

In terms of staffing, it still takes the equivalent of 7.5 full-time employees to operate the average section. The only difference in labor scheduling between 1990 and 1991 was the slight increase in the full-to-part-time ratio last year.

That situation, combined with the sales increase, enabled instore bakeries to spend less of their revenues on staffing last year. Labor accounted for an average of 30.2% of departmental sales in 1991, down from 31.4% in 1990.

Expressed in terms of labor productivity, the average weekly sales per employee increased from $882 in 1990 to $949 in 1991, a 7.6% boost.

Are more people selling harder, or are more consumers helping themselves to self-services? It would seem to be the latter.

The functional emphasis of bakery department labor scheduling is evolving, as indicated by the response to our survey. Operators report that their employees now spend about 65% of their time preparing products and performing other tasks not involving interaction with customers. The other 35% of time involved in direct customer service is lower than reported in previous years.

This reflects the growing emphasis on self-service merchandising, with greater numbers of items now being sold in that manner. Pies, decorated cakes, muffins and doughnuts,

INSTORE BAKERY

LABOR & SERVICE

The labor picture remained fairly stable in the bakery last year, with the department once again staffed by the equivalent of 7.5 full-time employees as it was in 1990. But with business better than in the preceding year, departmental labor rates and sales per employee were favorable.

In 1991, the cost of labor amounted to 30.2% of bakery sales, an improvement from 1990's 31.4%. The average weekly sales per bakery employee increased from $882 in 1990 to $949 last year.

The assignment of bakery manhours also changed last year. In 1990, 41% of productive work time was spent on direct customer service. Last year, that percentage dropped to just 35%, a reflection of the growing emphasis on self-service merchandising even within serviced departments.

While "help yourself" bulk product cases for rolls, bagels, doughnuts and cookies are used extensively, displays of pre-packaged products remain the most popular form of self-service merchandising. To take the best advantage of both techniques, operators continue to invest in packaging equipment and upgraded forms of self-service fixtures.

Number of Employees

Full time	4.4
Part time	6.1
Full time equivalent*	7.5

Full-Time Equivalent Employees

1-3	0%
4-5	28
6-7	33
8-9	28
10 or more	11
Total	100%

*2 part-time=1 full-time employee

Cake Decorating

Percent of Stores Offering	
Offer	86%
Do not offer	14

Time for Prep and Service

Breakdown of labor hours	
Customer service	35%
Other (incl. prep)	65
Total	100%

How Much for Labor?

Labor as a Percent Of Instore Bakery Sales	
Mean	30.2%
Median	31.0%
Under 26%	25%
26-30	13
31-35	31
36-40	25
Over 40	6
Total	100%

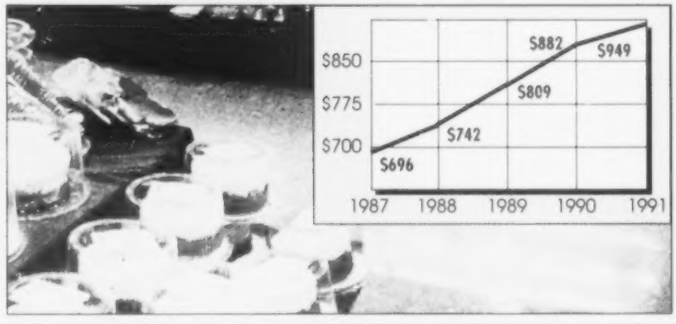
Brisk business, combined with stable staffing, resulted in healthy productivity in bakeries last year.

Average Weekly Sales Per Employee*

Mean	$949

Average Weekly Sales Per Employee*

*Full-time equivalent employees

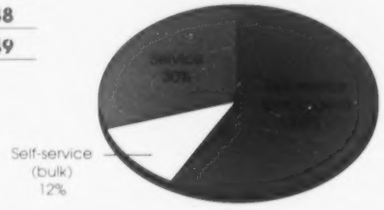


Service vs. Self-Service

Percent of Stores Offering*	
Service	74%
Self-service (packaged)	88
Self-service (bulk)	49

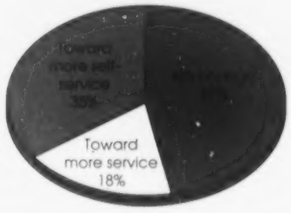
*Note: Includes multiple answers

Current Breakdown



Trends in Service

Expected Future Direction



Self-Service Equipment

Percent of Stores That Have	
Display tables for packaged self-service	87%
Self-service racks (or shelves) without doors	58
Roll bins with tongs for self-service	49
Self-service racks with glass doors	43
Hot coffee & beverages	40
Free-standing self-service racks (on wheels)	36
Self-service refrigerated cases	29

Self-Service Sales

Percent Sold Through Self-Service:	Pre-Packaged	Self-Packaged
Pies	72%	28%
Breads	86	14
Decorated cakes (refrigerated)	51	49
Decorated cakes (shelf temp.)	54	46
Doughnuts	40	60
Rolls	69	31
Muffins	81	19
Decorated cakes (frozen)	42	58

The all-important labor-to-sales ratio improved in the bakery department last year, with greater emphasis on self-service merchandising.

as well as the traditional breads and rolls, are common examples of products available either pre-packaged by the store, or sold in bulk from bins accessible to the customer.

With less time spent attending to customers, employees are devoting more to production details. And while bakeries have always utilized a combination of methods to prepare their products, 1991 marked the first year in which strict bake-off was not the major production technique for most stores.

Survey respondents indicated that 37% of bakeries integrated a combination of methods as the major means of production. Of those units remaining, 33% continued using bake-off as their major mode of production, while 24% opted for a scratch/mix process for the majority of their items, and 6% settled for the basic "thaw and sell" approach.

The major disappointment for instore bakery operators was

INSTORE BAKERY

PRODUCTION & SUPPLY

There's been a big change in the way some operators are producing bakery products, with the traditional bake-off procedure no longer the dominant technique it once was. In 1991, 37% of the respondents to this survey employed a combination of production methods, including elements of bake-off, scratch/mix and thaw-and-sell processes.

Strict bake-off thus fell to the number two slot, with 33% of instore bakeries remaining faithful to the process, followed by scratch/mix (24%) and thaw-and-sell (6%)

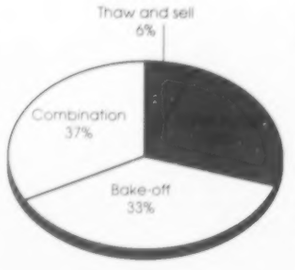
Methods of Production Percent Using*

	Bake-off	Mix	Scratch
Bread and rolls	76%	53%	29%
Yeast-raised doughnuts	71	53	6
Cake doughnuts	47	76	0
Sweet goods	59	47	29
Cookies	76	29	18
Pies	82	6	35
Layered cakes	47	65	12
Croissants	94	6	12
Brownies	24	64	6
Bagels	82	6	12
Muffins	41	65	24

*NOTE: Includes multiple answers

Major Method of Production

Percent Using



Suppliers to Instore Bakeries*

	Bakery Distributor/ Supplier	Grocery Wholesaler	Ingredients Manufacturer	Bakery Wholesaler
Bake-off	46%	80%	38%	10%
Mix	62	30	38	3
Scratch	62	30	62	2

*NOTE: Includes multiple answers

Warehouse vs. Direct Delivery

Percent of Baking Ingredients Supplied

Through warehouse	60%
Direct to stores	40
Total	100%

MERCHANDISING & CUSTOMERS

There was some bad news in the bakery last year, in that fewer register tapes reflected bakery purchases than in 1990. Last year, 26.2% of weekly store visits included a stop in the bakery, down from 27.6% the year before. This was despite continued promotion of the department in newspaper ads, store circulars and sampling programs.

But on a dollar basis, this was offset by the fact that those who did stop spent more, with the average bakery transaction up to $2.22 last year from 1990's $2.01.

Bakeries' Share of Ad Space Compared to Share of Sales

Greater	40%
Less	20
Equal	40
Total	100%

How Supermarket Customers Spend

Percent Who Shop the Instore Bakery

Mean **26.2%** Median **26.5%**

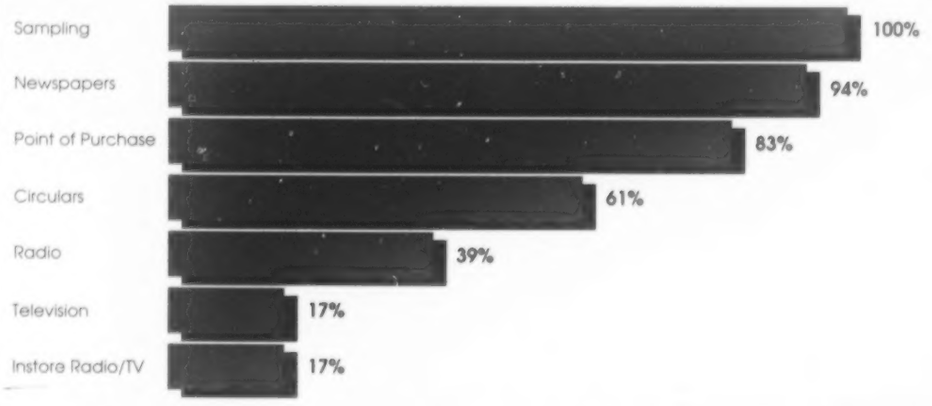
How Much They Spend

Mean **$2.22** Median **$2.13**

Do You Consider Your Bakeries:

Image/traffic builders	14%
Profit centers	15
Both	71
Total	100%

Advertising and Promotion Sell Instore Bakery Percent Using



their failure to increase the number of store transactions that included bakery sales.

In fact, the survey revealed that in the average supermarket, 26.2% of all weekly shopping trips included a purchase from the instore bakery, down from 27.6% in 1990.

Is inadequate promotion the culprit? Not according to 88% of our survey respondents, who felt that the promotional dollars they spend on newspaper ads, circulars and instore sampling are in line with the department's sales and earnings contribution, and in some cases perhaps generous.

The good news was that those shoppers who did patronize the bakery spent more than they did the year before. The average bakery transaction jumped 21 cents in 1991, to $2.22, an increase of 10.4%.

Can the bakery again achieve double-digit sales growth in 1992? Will economic conditions have any more effect than they did last year? Can the bakery indeed attract more store customers, or has the department reached the "max?" Tune in next April, and find out.

Charts continue on page 62

INSTORE BAKERY

SPACE, LOCATION & EQUIPMENT

There was little change in the dimensions of the instore bakery last year, with the departmental average down slightly to 1,618 sq. ft. from 1,626 in 1990. This put the bakery's share of store space at about 5.3%.

But if bakeries lost some space overall, they made the best of what they had, with average weekly sales per square foot rising to a new high of $4.40.

Fast becoming more of a supermarket staple, the service bakery is no longer the exclusive province of the superstore, with half of all departments operating in conventional units.

As merchandising and production methods continue to evolve, equipment purchases continue to keep pace. The retailer tries to use this equipment to enhance both the customer appeal and cost effectiveness of the department.

Bakeries are no longer limited to larger superstores. In fact, half of all instore bakeries now operate in conventional stores.

Size of Department

Square Feet of Space	
Mean	1,618 Feet

Square Feet by Format	
Superstore	2,338
Super warehouse store	2,220
Conventional	911

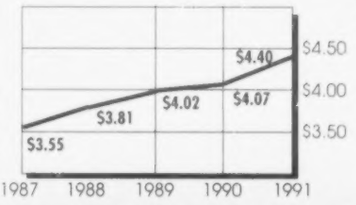
Share of Total Store Space	
Mean	5.3%

Percent Share by Format	
Superstore	5.3%
Super warehouse store	3.9
Conventional	5.0%

Average Weekly Sa'es Per Square Foot of Space

Mean	$4.40

Average Weekly Sales Per Square Foot of Space by Format	
Superstore	$4.68
Superwarehouse Store	$3.05
Conventional	$6.35



The Deli/bakery Concept

Stores combining delis and bakeries into a joint deli/bakery department

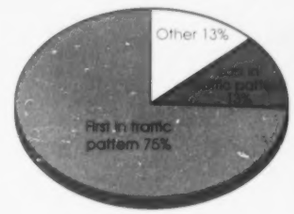
Joint deli/bakery	28%
Separate departments	72
Total	100%

Location of Bakeries by Store Format

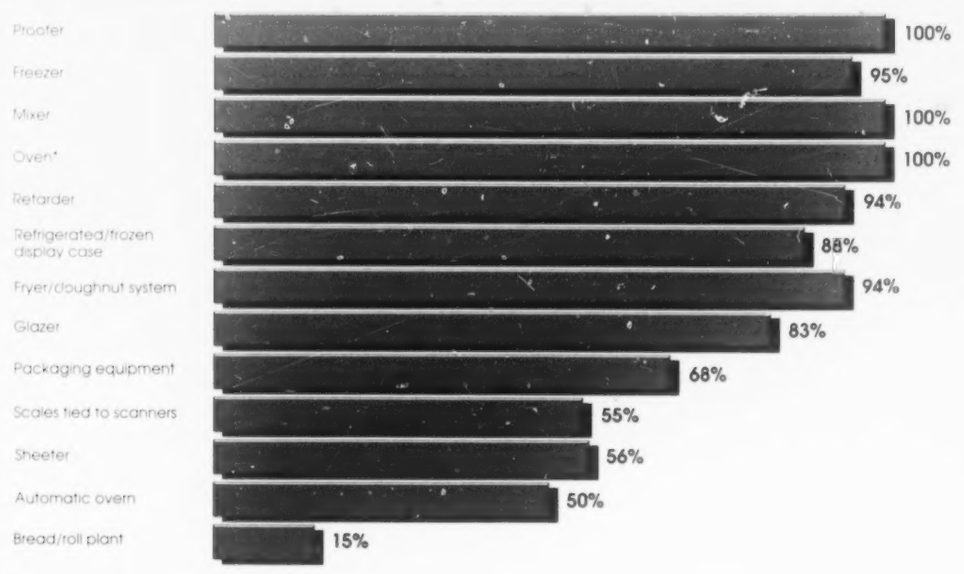
Percent Located in:

Superstore	38%
Super warehouse store	12
Conventional	50
Total	100%

Preferred Location for Bakery



The Well-Equipped Instore Bakery Percent of Stores That Have



* Excludes automatic oven